



County of Los Angeles
CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

September 11, 2007

Board of Supervisors
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YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

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MICHAEL D. ANTONOVICH
Fifth District

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

**ADDITIONAL INFORMATION REGARDING ITEM 43 ON THE
SEPTEMBER 11, 2007 BOARD AGENDA -- MERCER OPINION ON KAISER RATES
FOR 2008**

Board policy requires that the County and its consultant, Mercer Human Resource Consulting, render an opinion on the justification of premium rates for group health, dental and life insurance plans proposed to the Board for approval.

The opinion expressed by Mercer in Attachments A and B of the Board letter recommending group insurance premiums for 2008 is "qualified" regarding the Kaiser rates, pending receipt of additional information requested from Kaiser. Mercer received an information package from Kaiser on September 4, 2007.

As indicated in the attached report, Mercer did not find information in the Kaiser package that materially alters its opinion concerning the justification for Kaiser's 2008 rates. In its report, Mercer provides recommendations for improving Kaiser reporting practices in future rate renewals, and suggests that they be pursued with Kaiser.

We continue to recommend approval of the offered Kaiser premium rates for 2008 as there is no viable alternative at this time for covering the tens of thousands of employees and their dependents currently enrolled in the plan.

WTF:SRH

DL:WGL:FF:df

c. Executive Office, Board of Supervisors
County Counsel
Director, Department of Human Resources
Attachment

MERCER

Health & Benefits

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Los Angeles, CA 90017
213 346 2200 Fax 213 346 2680
marci.burns@mercer.com
www.mercerHR.com

September 10, 2007

Marian Hall
Chief of Employee Benefits
County of Los Angeles
3333 Wilshire Boulevard, Suite 1000
Los Angeles, CA 90010-4101

Subject:

Kaiser's Utilization Analysis

Dear Marian,

This letter summarizes our review and opinion of the utilization analysis delivered by Kaiser on September 4. The reports provided by Kaiser for the Non-represented and Represented plans almost exclusively contained materials previously presented by Kaiser, either during the renewal process or, in the case of the Represented plans, in the quarterly plan review meetings held over the past year. For the Non-represented plan, Kaiser's most recent analysis does provide some new information about pharmacy costs, medical plan utilization in the areas of maternity, increases in the average length of inpatient stays for some conditions, and the impact of high claims on the number of inpatient days per 1,000 County members. Overall the new information does not impact our assessment of Kaiser's renewal as outlined in our previous 2008 renewal summary letters to the County dated August 23, 2007.

Kaiser's analysis has moved further down the road of identifying changes in year over year utilization. The information provided is improved upon that submitted a year ago and their reporting (as provided this past year for the Represented plan) affords a better opportunity to understand underlying chronic conditions in the population. Assuming that Kaiser does not significantly change its coding or basis for charging fees, this utilization information will establish a baseline for measurement of future utilization and cost changes. Based on our prior audits of Kaiser's data, there is no indication that their results are based on invalid utilization information.

However, the analysis still falls short of determining the net impact of utilization changes on the renewal – and whether the utilization changes can be expected to continue. Although Kaiser has provided some statistics about the results of year over year utilization changes, they are not able to answer why it changed so significantly. We know that some fluctuations and random events are expected in any population, but because Kaiser enrolls such a large County population, the magnitude of the fluctuations observed over the last year is not expected. Kaiser is also an

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Health & Benefits

Page 2

September 10, 2007

Marian Hall

County of Los Angeles

integrated system – both managing and delivering the care, and reporting on it. We expect Kaiser to be able to leverage the power of this integration to provide better analytics about the drivers of health care costs and improved employer plan management information.

At this time we recommend that the County accept Kaiser's 2008 renewal position, but continue to demand from Kaiser improved reporting. Specifically we recommend that the County pursue these actions:

- Pursue Kaiser's commitment to work with County Management on CMGOs and to provide quarterly County plan analysis via the Partnership in Health (PIH) and Periodic Utilization Report (PUR) reports. We understand that the County has already engaged Kaiser to move forward with these reviews and initiatives
- Push Kaiser to provide more current utilization data, similar to the timing provided by the other health plans. Since renewals are still impacted by the average health plan results, Kaiser should also tie the emerging County results to changes in the Southern California health plan
- Require that Kaiser provide a financial valuation of resource utilization changes tied to patient encounter (claims) data. The financial valuation should include both the dollar impact of positive and negative utilization changes and how those dollars impact the renewal results. It is also essential for Kaiser, like the other carriers, to report loss ratios on a quarterly basis; the loss ratio should show the relationship between paid premiums and the dollar value of patient encounter (claims) data for the period
- Expect Kaiser to provide more detailed and relevant utilization information leveraging the power of their integrated system to answer "why" utilization is changing, in addition to "how" it is changing
- Require that Kaiser provide a detailed analysis of all utilization changes that have a +/- 2% renewal impact in comparison to Kaiser's average Southern California health plan result, even if the overall renewal results are within or better than the CMGO targets
- Require that Kaiser fully document the renewal and utilization impact of any coding/fee schedule changes – as future changes in these areas could impact the "baselines" derived from current utilization

Please let us know if you would like to discuss any of these recommendations in more detail.

MERCER

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Page 3

September 10, 2007

Marian Hall

County of Los Angeles

Sincerely,

A handwritten signature in black ink, appearing to read "Marci Burns", with a stylized, flowing script.

Marci Burns

Copy:

Frank Frazier, County of Los Angeles

Bill Lynes, County of Los Angeles

Bill Scott, Mercer

Jeff Whitman, Mercer